

# Legislative Audit Division

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State of Montana



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Report to the Legislature

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August 2002

## Information System Audit

### Montana Integrated System to Improve Customer Service (MISTICS)

Department of Labor and Industry  
Unemployment Insurance Division

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## INFORMATION SYSTEM AUDITS

Information System (IS) audits conducted by the Legislative Audit Division are designed to assess controls in an IS environment. IS controls provide assurance over the accuracy, reliability, and integrity of the information processed. From the audit work, a determination is made as to whether controls exist and are operating as designed. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

Members of the IS audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business, accounting and computer science.

IS audits are performed as stand-alone audits of IS controls or in conjunction with financial-compliance and/or performance audits conducted by the office. These audits are done under the oversight of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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# LEGISLATIVE AUDIT DIVISION

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Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

August 2002

The Legislative Audit Committee  
of the Montana State Legislature:

We conducted an Information Systems audit of the Montana Integrated System to Improve Customer Service (MISTICS) at the Department of Labor and Industry Unemployment Insurance Division. Our review was held in conjunction with Financial-Compliance Audit and encompassed a limited scope to provide assurance over system application processes. Our audit focused on MISTICS programming code to determine if unemployment insurance eligibility, calculations of benefit withholdings, payments and disqualifications comply with applicable laws and regulations.

We wish to express our appreciation to the department for their cooperation and assistance.

Respectfully submitted,

*(Signature on File)*

Scott A. Seecat  
Legislative Auditor

# **Legislative Audit Division**

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## **Information System Audit**

### **Montana Integrated System to Improve Customer Service (MISTICS)**

**Department of Labor and Industry  
Unemployment Insurance Division**

Members of the audit staff involved in this audit were Debra Blossom,  
Ida L. Sajor, and Jessie Solem.

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## **Appointed and Administrative Officials**

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### **Department of Labor and Industry**

Wendy J. Keating, Commissioner

Keith Kelly, Administrator, Unemployment Insurance Division

Joanne Loughney-Finstad, Chief, Unemployment Insurance Program  
Support Bureau

Roy Mulvaney, Chief, Unemployment Insurance Benefits Bureau

Lynn Long, Chief, Unemployment Insurance Claims Processing  
Bureau

# Executive Summary

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## Introduction

At the request of Financial-Compliance audit staff, the Information Systems audit team was engaged to provide assurance over certain aspects of the Montana Integrated System to Improve Customer Service, hereinafter called MISTICS.

MISTICS was implemented in April 2001, and replaced the legacy system known as BeARs, the Benefit Automation Rewrite System. BeARs processed Unemployment Insurance since its implementation in 1984, and was a system with patchwork databases that were not fully integrated. As a result, the Montana Department of Labor and Industry, Unemployment Insurance Division (UID), contracted for services to assist with the development, implementation and training for a new custom-built unemployment insurance benefits system. The UID identified the need for information to be more readily available to facilitate information retrieval and customer service. MISTICS is currently being used for document management and imaging, determining client eligibility and recording, accounting, and payment of unemployment insurance claims. This is the first audit over specific MISTICS functionality and controls.

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## Background

Unemployment insurance benefits provide temporary income to aid workers who are unemployed. Individuals wishing to receive benefits must file a claim with the UID. The process of filing a claim begins by determining if the individual is eligible for benefits, how long the individual will be eligible to draw benefits and how much the individual is entitled to receive each week.

When an individual files for UI benefits, a claim results. Each claim is processed in MISTICS, where Customer Service Representatives (CSR) determine whether eligibility “issues” exist. Issues are any act or circumstance that is potentially disqualifying, meaning the claim could be ineligible for benefits as defined by law. Claims that have been identified as having issues undergo a manual process called “*fact finding*,” where information provided by the individual and on the claim itself is investigated to try to reach a resolution to the issue. Each issue is linked to a decision issue type, which will ultimately determine the eligibility of the individual’s claim for

## Executive Summary

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unemployment benefits. The decision issue types contain an indicator, where MISTICS will automatically determine whether a claim is to be paid.

UID had approximately \$70,992,000 of unemployment benefits paid out for fiscal year 2000-01. There were 57,027 initial claims filed; 28,173 claimants receiving at least one payment; and 33,250 active UI employer accounts.

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### Audit Objectives

The primary audit objective was to provide assurance over:

MISTICS logical processes to determine eligibility, calculations of benefit withholdings, payments, and disqualifications to ensure adherence with applicable laws and regulations of Title 39, Chapter 51, MCA. Specific tests encompassed:

- a) Federal Income Tax Withholding and Accumulation;
- b) Maintaining disqualifications for the full period in accordance to specific law;
- c) Prevention of improper payment of benefits;
- d) Appropriate denial of claims;
- e) Accurately recording disqualification period;
- f) Calculations of weekly wage and benefit amounts, and maximum total benefit amounts;
- g) Prorating experience and billing non-premium paying employers; and
- h) Reduction of benefits due to other income, pension, or retirement.

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### Audit Scope and Methodology

The audit was conducted in accordance with government auditing standards published by the United States General Accounting Office (GAO), and accepted industry information system guidelines. Audit work was performed to ensure MISTICS processing complies with and adheres to stated objectives and applicable law in congruence with management intent.

We obtained programming and form code for numerous MISTICS processes to evaluate whether audit objectives were met. Review of code and interview with internal programmers and contractor resources provided assurance with regard to logistical processes within MISTICS.

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### Conclusion

MISTICS processes are in compliance with applicable laws and regulations, and functions as intended.

However, we cannot provide assurance over those circumstances where manual intervention does not always result in a prevention of claim payment. It is the responsibility of the Customer Service Representative or Adjudicator to determine whether or not a claim is to be paid or prevented from payment, where the manual input into MISTICS by the Customer Service Representative or Adjudicator will determine how MISTICS will process the claim.

Additionally, circumstances associated with sections 39-51-2302 thru 39-51-2307, MCA, "Benefit Disqualification" can have numerous resolutions linked to multiple eligibility issues that can potentially disqualify a claim as defined by statute. Therefore, we can ensure that MISTICS is appropriately designating claims as "disqualified" in accordance with specified statutes while simultaneously preventing payment of a claim, given the respective decision issue type resolution.



# Disclosure Issue

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## Profiling

Profiling is a federally mandated UI program to identify and assist people who are likely to exhaust their regular unemployment insurance claim before acquiring other employment. Profiled claimants are required to attend Re-employment Services at their local job service. Claimants who fail to appear are designated as “*No Show*” and may lose their UI benefits, pursuant to section 39-51-2104, MCA.

MISTICS processing identifies profiled claimants as “*No Show*,” with the intent that claimants’ weekly benefits be stopped for payment. However, testing revealed that despite MISTICS processing logic functioning as intended, the order in which the processing jobs are executed are out of sequence resulting in approximately 35 claims totaling \$5,736 erroneously paid to “*No Show*” claimants from April 07, 2001 through July 02, 2002.

Upon notification of the sequencing of the job stream, UID immediately implemented our recommendation of appropriately moving the “*No Show*” processing job prior to the creation of payments. Therefore, we have determined the appropriate corrective action has been implemented.

# **Department Response**

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JUDY MARTZ, GOVERNOR

# Montana

## Department of Labor and Industry

Commissioner's Office

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AUG 16 2002

LEGISLATIVE AUDIT DIV.

August 13, 2002

Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
Helena, MT 59620-1705

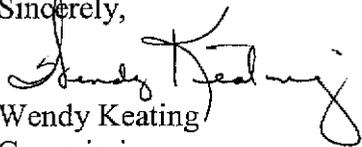
Dear Mr. Seacat:

The Unemployment Insurance Division brought the MISTICS system on-line in April of 2001. Although we put a great deal of emphasis and time on testing the system, we were anxious to have your staff audit the new system to further test its integrity. We are extremely pleased that the audit had no recommendations. We were able to implement the one suggestion that your staff made to change the order of jobs in the nightly batch processing within 24 hours of being notified.

The Department is extremely proud of the MISTICS system. As you know, a project of this magnitude requires an intensive staff effort over several years. We were committed to having a system that would improve customer service to Montana's workers and employers, increase the integrity of the UI system, assure proper payments and improve UI business functions. The United States Department of Labor and the National Association of State Workforce Agencies recently awarded the MISTICS system the national Compass Award for innovative technological solutions that improve customer service. The award is based on stringent performance criteria and competition was stiff.

We appreciate the cooperation and thoroughness of your staff while they were on-site.

Sincerely,

  
Wendy Keating  
Commissioner

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